

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Township of Covert
Van Buren County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Township of Covert's (the Township) operations over the fiscal year and its financial condition on June 30, 2005.

Financial highlights

- The Township's total net assets increased \$1.3 million (16 percent) as a result of this year's operations. Net assets of the governmental activities decreased \$20 thousand, (1 percent), and net assets of the business-type activities increased \$1.4 million (24 percent).
- Of the \$9.5 million total net assets reported, \$4.3 million is available to be used to meet future operating and capital improvement needs.
- The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$486 thousand, which represents 75 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - The governmental funds statements tell how general government services like public works and public safety were financed in the short term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business. The Township has two proprietary funds to account for its water and sewer operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

This is the second year using the Governmental Accounting Standards Board Statement 34 (GASB 34) reporting format. A comparative analysis of the basic financial statements will be made using the current and last year's basic financial statements.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets and the statement of activities include all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - These activities include functions most commonly associated with government (e.g., general government, public works, public safety, etc.). Property taxes and intergovernmental revenues generally fund these services.
- *Business-type activities* - These activities provide services that are funded by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

1. *Government funds*. Most of the Township's basic services are included in governmental funds, which focus on 1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, 2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund financial statements (Continued)

2. *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds (a type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows.
3. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Township's fiduciary activities are reported in separate statements of net assets - fiduciary fund. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets. Total net assets at the end of the fiscal year were \$9.5 million, an increase of 16 percent over the prior year. However, \$5.2 million of this total is invested in capital assets, and \$1.7 million is restricted for capital asset acquisitions, debt service, public safety, public works, and community and economic development. Consequently, unrestricted net assets were \$2.6 million, 27 percent of the total.

*Condensed financial information
net assets (in thousands)*

	<i>activities</i>		<i>activities</i>		<i>Totals</i>	
	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>
Assets						
Current and other assets	\$ 1,430.5	\$ 1,448.4	\$ 5,608.1	\$ 3,211.4	\$ 7,038.6	\$ 4,659.8
Capital assets	<u>1,122.3</u>	<u>1,122.7</u>	<u>15,543.0</u>	<u>17,370.0</u>	<u>16,665.3</u>	<u>18,492.7</u>
Total assets	<u>2,552.8</u>	<u>2,571.1</u>	<u>21,151.1</u>	<u>20,581.4</u>	<u>23,703.9</u>	<u>23,152.5</u>
Liabilities						
Long-term debt outstanding	68.0	75.0	13,629.4	13,254.4	13,697.4	13,329.4
Other liabilities	<u>73.8</u>	<u>105.5</u>	<u>1,758.2</u>	<u>203.5</u>	<u>1,832.0</u>	<u>309.0</u>
Total liabilities	<u>141.8</u>	<u>180.5</u>	<u>15,387.6</u>	<u>13,457.9</u>	<u>15,529.4</u>	<u>13,638.4</u>
Net assets						
Invested in capital assets	1,122.3	1,122.7	1,907.9	4,066.9	3,030.2	5,189.6
Restricted	689.8	773.6	2,679.8	907.1	3,369.6	1,680.7
Unrestricted	<u>598.9</u>	<u>494.3</u>	<u>1,175.8</u>	<u>2,149.5</u>	<u>1,774.7</u>	<u>2,643.8</u>
Total net assets	<u>\$ 2,411.0</u>	<u>\$ 2,390.6</u>	<u>\$ 5,763.5</u>	<u>\$ 7,123.5</u>	<u>\$ 8,174.5</u>	<u>\$ 9,514.1</u>

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (Continued)

Changes in net assets. The Township's total revenues are \$4.1 million. Approximately 76 percent of the Township's revenues come from property taxes, and 5 percent is received as state revenue sharing. About 13 percent of total revenues come from charges for services.

Condensed financial information
Changes in net assets (in thousands)

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>
Program revenues						
Charges for services	\$ 172.1	\$ 268.1	\$ 285.8	\$ 250.8	\$ 457.9	\$ 518.9
Operating grants	-	5.0	-	-	-	5.0
Capital grants	54.2	122.6	40.7	50.0	94.9	172.6
General revenues						
Taxes	1,019.7	1,207.2	962.5	1,889.0	1,982.2	3,096.2
State grants	221.6	219.0	-	-	221.6	219.0
Investment income	36.9	19.4	12.2	25.8	49.1	45.2
Other	28.2	37.1	-	-	28.2	37.1
Total revenues	<u>1,532.7</u>	<u>1,878.4</u>	<u>1,301.2</u>	<u>2,215.6</u>	<u>2,833.9</u>	<u>4,094.0</u>
Expenses						
Legislative	3.0	4.1	-	-	3.0	4.1
General government	278.7	353.2	-	-	278.7	353.2
Public safety	1,068.2	1,134.2	-	-	1,068.2	1,134.2
Public works	296.6	283.3	764.1	855.6	1,060.7	1,138.9
Community and economic development	28.0	33.8	-	-	28.0	33.8
Recreation and culture	18.9	90.2	-	-	18.9	90.2
Health and welfare	88.0	-	-	-	88.0	-
Total expenses	<u>1,781.4</u>	<u>1,898.8</u>	<u>764.1</u>	<u>855.6</u>	<u>2,545.5</u>	<u>2,754.4</u>
Excess (deficiency) before transfers	(248.7)	(20.4)	537.1	1,360.0	288.4	1,339.6
Transfers	<u>(12.0)</u>	<u>-</u>	<u>12.0</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (260.7)</u>	<u>\$ (20.4)</u>	<u>\$ 549.1</u>	<u>\$ 1,360.0</u>	<u>\$ 288.4</u>	<u>\$ 1,339.6</u>

Governmental activities. Governmental activities decreased the Township's net assets by \$20 thousand. Key factors for this decrease include the excess of the net cost of services over property taxes and intergovernmental revenues.

The cost of all governmental activities this year was \$1.9 million. After subtracting the direct charges to those who directly benefited from the programs (\$268 thousand), operating grants (\$5 thousand), and capital grants (\$123 thousand), the "public benefit" portion covered by taxes, state revenue sharing, other general revenues, and available surplus was \$1.5 million.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE (Continued)

Business-type activities. Business-type activities increased the Township's net assets by \$1.4 million.

The cost of water and sewer services for 2005 totaled \$855 thousand, including interest expense of \$274 thousand. Fees for these services totaled \$251 thousand. The Township levies an annual tax for the purposes of paying principal and interest for outstanding water bonds payable. The tax totaled \$1.9 million in 2005.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At June 30, 2005, the Township's governmental funds reported a combined fund balance of \$1.3 million, approximately \$14 thousand less than last year.

Expenditures in the General Fund exceeded revenues by \$156 thousand. \$200 thousand of this represented transfers made to the Fire and Ambulance Fund and the Police Fund. This use of available surplus was less than the anticipated amount in the General Fund budget for 2005, and a \$486 thousand fund balance remains in the fund.

The Police Fund had a \$48 thousand increase in its fund balances this year. The Fire and Ambulance Fund balance increased by \$100 thousand. Both the Police and Fire and Ambulance funds benefited from increased tax millages of \$74 thousand and \$171 thousand, respectively. The additional county-wide millage also increased by \$71 thousand in the Fire and Ambulance Fund as a result of a millage increase and a new allocation formula. These increased revenue sources were discussed in last year's Management's Discussion and Analysis.

General fund budgetary highlights

The Township amended the General Fund budget, primarily to prevent budget overruns. No amendments were significant, individually or in total.

Positive variances in ordinance enforcement and capital outlay of approximately \$21 thousand each reflected lower than anticipated service needs in each category. An array of smaller positive variances in the general government activities totaled \$57 thousand. Building inspection activities resulted in a \$34 thousand positive variance, but these activities reflect individuals' decisions to build within the Township and are not within the control of the Township.

Capital assets and debt administration

Capital assets.

At June 30, 2005, the Township had invested \$18.5 million in various capital assets, net of depreciation, including its land, buildings, equipment, and water and wastewater systems. This amount represents an increase of \$1.8 million, 11 percent over the prior year.

This year's major capital asset additions included \$3.2 million in additions to the Township's water supply system, financed with proceeds available from the 2003 water bond issue. The Township also acquired \$80 thousand in fire equipment, using a Federal grant award and other contributions.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (Continued)

Capital assets and debt administration (Continued)

Detailed information about the Township's capital assets is presented in Note 6 to the financial statements.

Long-term debt.

At year end, the Township had \$13.3 million in outstanding bonds payable included in its business-type activities and comprised of five general obligation and revenue bond issues. Detailed information about the Township's long-term liabilities is presented in Note 7 to the financial statements.

No new debt was issued this year.

Economic condition and outlook

Approximately \$486 thousand is available for appropriation in the General Fund budget. Modest increases in property taxes from increased assessed values are expected next year. Overall, revenues are expected to increase slightly for 2006.

The Township has not added other major new programs or initiatives to the 2006 budget. Various cost increases in payroll and fringe benefits are anticipated. However, the General Fund is also expected to receive some repayment of its prior subsidies to the Fire and Ambulance Fund. Overall, the General Fund balance is expected to be stable or increase slightly during fiscal year 2006.

Revenues in the other governmental funds are also expected to remain stable as a result of the additional tax millages for Police and Fire and Ambulance, which went into effect in 2005. The result of these changes is expected to eliminate the need for the Township's General Fund to subsidize these public safety services in 2006 and beyond.

The Township's Water Fund is expected to operate so that revenues, including property taxes for debt service, will continue to exceed expenses for water services. However, the Wastewater Fund is expected to again generate small negative cash flows, which may require a subsidy from the General Fund to cover operating costs.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors, and to demonstrate the Township's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Township of Covert, Supervisor's Office, P.O. Box 35, Covert, Michigan 49043 (Phone: (269) 764-8986.)

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Covert, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Covert, Michigan, as of June 30, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Covert, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows of the proprietary funds for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison schedules, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Covert, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Township of Covert, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards* we have also issued our report dated November 10, 2005, on our consideration of the Township of Covert's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sigfried Crandall P.C.

November 10, 2005

BASIC FINANCIAL STATEMENTS

Township of Covert
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,338,419	\$ 1,528,777	\$ 2,867,196
Receivables, net	96,311	201,692	298,003
Bond debt reserves - USDA loan	-	44,662	44,662
Total current assets	<u>1,434,730</u>	<u>1,775,131</u>	<u>3,209,861</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	1,122,681	17,369,922	18,492,603
Receivables, net	13,658	1,356,450	1,370,108
Deferred charges	-	79,879	79,879
Total non-current assets	<u>1,136,339</u>	<u>18,806,251</u>	<u>19,942,590</u>
Total assets	<u>2,571,069</u>	<u>20,581,382</u>	<u>23,152,451</u>
LIABILITIES			
Current liabilities:			
Accounts payable	58,530	146,281	204,811
Accrued liabilities	46,919	57,260	104,179
Current maturities of long-term debt	-	383,858	383,858
Total current liabilities	<u>105,449</u>	<u>587,399</u>	<u>692,848</u>
Noncurrent liabilities:			
Compensated absences	75,000	-	75,000
Long-term debt	-	12,870,500	12,870,500
Total noncurrent liabilities	<u>75,000</u>	<u>12,870,500</u>	<u>12,945,500</u>
Total liabilities	<u>180,449</u>	<u>13,457,899</u>	<u>13,638,348</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,122,681	4,066,921	5,189,602
Restricted for:			
Acquisition of capital assets	-	603,619	603,619
Debt service	-	303,418	303,418
Public safety	415,901	-	415,901
Public works	344,068	-	344,068
Community and economic development	13,658	-	13,658
Unrestricted, unallocated	<u>494,312</u>	<u>2,149,525</u>	<u>2,643,837</u>
Total net assets	<u>\$ 2,390,620</u>	<u>\$ 7,123,483</u>	<u>\$ 9,514,103</u>

See notes to financial statements

Township of Covert
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

		<u>Program revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>	<u>grants and</u>
			<u>contributions</u>	<u>contributions</u>
Functions/Programs				
Governmental activities:				
Legislative	\$ 4,133	\$ -	\$ -	\$ -
General government	353,147	29,265	1,802	12,485
Public safety	1,134,163	203,569	-	85,106
Public works	283,320	5,233	3,244	25,000
Community and	-	-	-	-
economic development	33,794	-	-	-
Recreation and culture	90,197	30,042	-	-
	<u>1,898,754</u>	<u>268,109</u>	<u>5,046</u>	<u>122,591</u>
Total governmental activities				
Business-type activities:				
Sewer	110,397	69,138	-	-
Water	745,215	181,624	-	50,000
	<u>855,612</u>	<u>250,762</u>	<u>-</u>	<u>50,000</u>
Total business-type activities				
Total	<u>\$ 2,754,366</u>	<u>\$ 518,871</u>	<u>\$ 5,046</u>	<u>\$ 172,591</u>

General revenues:

Taxes
State grants
Investment income
Proceeds from sale of assets
Other

Change in net assets

Net assets - beginning

Net assets - ending

**Net (expenses) revenues and
changes in net assets**

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (4,133)		\$ (4,133)
(309,595)		(309,595)
(845,488)		(845,488)
(249,843)		(249,843)
(33,794)		(33,794)
<u>(60,155)</u>		<u>(60,155)</u>
<u>(1,503,008)</u>		<u>(1,503,008)</u>
-	\$ (41,259)	(41,259)
-	<u>(513,591)</u>	<u>(513,591)</u>
-	<u>(554,850)</u>	<u>(554,850)</u>
<u>(1,503,008)</u>	<u>(554,850)</u>	<u>(2,057,858)</u>
1,207,174	1,888,999	3,096,173
219,004	-	219,004
19,398	25,821	45,219
12,596		12,596
<u>24,460</u>	<u>-</u>	<u>24,460</u>
<u>1,482,632</u>	<u>1,914,820</u>	<u>3,397,452</u>
(20,376)	1,359,970	1,339,594
<u>2,410,996</u>	<u>5,763,513</u>	<u>8,174,509</u>
<u>\$ 2,390,620</u>	<u>\$ 7,123,483</u>	<u>\$ 9,514,103</u>

See notes to financial statements

Township of Covert
BALANCE SHEET - governmental funds
June 30, 2005

	<u>General</u>	<u>Police</u>	<u>Fire and Ambulance</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 462,028	\$ 189,904	\$ 259,576	\$ 426,911	\$ 1,338,419
Due from other governmental units	71,527	-	-	-	71,527
Accounts receivable	-	-	24,784	-	24,784
Loans receivable	-	-	-	13,658	13,658
Total assets	<u>\$ 533,555</u>	<u>\$ 189,904</u>	<u>\$ 284,360</u>	<u>\$ 440,569</u>	<u>\$ 1,448,388</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 42,832	\$ 1,154	\$ 14,544	\$ -	\$ 58,530
Accrued liabilities	4,254	14,241	28,424	-	46,919
Total liabilities	<u>47,086</u>	<u>15,395</u>	<u>42,968</u>	<u>-</u>	<u>105,449</u>
Fund balances:					
Reserved for noncurrent receivables	-	-	-	13,658	13,658
Unreserved, unallocated	486,469	174,509	241,392	426,911	1,329,281
Total fund balances	<u>486,469</u>	<u>174,509</u>	<u>241,392</u>	<u>440,569</u>	<u>1,342,939</u>
Total liabilities and fund balances	<u>\$ 533,555</u>	<u>\$ 189,904</u>	<u>\$ 284,360</u>	<u>\$ 440,569</u>	<u>\$ 1,448,388</u>
Total fund balances - total governmental funds					\$ 1,342,939
Amounts reported for <i>governmental activities</i> (page 5) in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					1,122,681
Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.					(75,000)
Net assets of governmental funds					<u>\$ 2,390,620</u>

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds

Year ended June 30, 2005

	<u>General</u>	<u>Police</u>	<u>Fire and Ambulance</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES					
Taxes	\$ 339,868	\$ 351,629	\$ 398,463	\$ 117,214	\$ 1,207,174
Federal grants	12,485	-	75,987	25,000	113,472
State grants	217,174	1,830	-	-	219,004
Fines and forfeitures	-	2,174	-	-	2,174
Licenses and permits	24,815	-	-	-	24,815
Intergovernmental	-	-	99,689	-	99,689
Charges for services	41,581	-	76,891	-	118,472
Interest and rentals	29,631	1,054	1,322	4,915	36,922
Other	30,606	13,681	22,688	2,172	69,147
Total revenues	<u>696,160</u>	<u>370,368</u>	<u>675,040</u>	<u>149,301</u>	<u>1,890,869</u>
EXPENDITURES					
Legislative	4,133	-	-	-	4,133
General government	340,580	-	-	-	340,580
Public safety	37,197	421,853	601,191	-	1,060,241
Public works	127,323	-	-	155,494	282,817
Community and economic development	33,794	-	-	-	33,794
Recreation and culture	76,820	-	-	-	76,820
Capital outlay	32,176	-	74,062	-	106,238
Total expenditures	<u>652,023</u>	<u>421,853</u>	<u>675,253</u>	<u>155,494</u>	<u>1,904,623</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>44,137</u>	<u>(51,485)</u>	<u>(213)</u>	<u>(6,193)</u>	<u>(13,754)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	100,000	100,000	-	200,000
Transfers out	(200,000)	-	-	-	(200,000)
Total other financing sources (uses)	<u>(200,000)</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(155,863)</u>	<u>48,515</u>	<u>99,787</u>	<u>(6,193)</u>	<u>(13,754)</u>
FUND BALANCES - BEGINNING	<u>642,332</u>	<u>125,994</u>	<u>141,605</u>	<u>446,762</u>	<u>1,356,693</u>
FUND BALANCES - ENDING	<u>\$ 486,469</u>	<u>\$ 174,509</u>	<u>\$ 241,392</u>	<u>\$ 440,569</u>	<u>\$ 1,342,939</u>

Net change in fund balances - total governmental funds \$ (13,754)

Amounts reported for *governmental activities* (page 6) in the statement of activities are different because:

Additions:

Acquisition of capital assets, net of disposals 109,749

Subtractions:

Provision for depreciation (109,371)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (7,000)

Change in net assets of *governmental activities* \$ (20,376)

See notes to financial statements

Township of Covert
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2005

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Nonmajor</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and investments	\$ 1,518,949	\$ 9,828	\$ 1,528,777
Receivables, net	77,282	25,307	102,589
Due from other governmental units	99,103	-	99,103
Bond debt reserves - USDA loan	-	44,662	44,662
Total current assets	<u>1,695,334</u>	<u>79,797</u>	<u>1,775,131</u>
Noncurrent assets:			
Receivables, net	751,250	1,581	752,831
Due from other governmental units	603,619	-	603,619
Deferred charges	79,879	-	79,879
Capital assets, net of accumulated depreciation	<u>16,053,960</u>	<u>1,315,962</u>	<u>17,369,922</u>
Total noncurrent assets	<u>17,488,708</u>	<u>1,317,543</u>	<u>18,806,251</u>
Total assets	<u>19,184,042</u>	<u>1,397,340</u>	<u>20,581,382</u>
LIABILITIES			
Current liabilities:			
Accounts payable	146,281	-	146,281
Accrued interest	47,185	10,075	57,260
Current maturities of long-term debt	<u>376,358</u>	<u>7,500</u>	<u>383,858</u>
Total current liabilities	569,824	17,575	587,399
Noncurrent liabilities - long-term debt	<u>12,475,000</u>	<u>395,500</u>	<u>12,870,500</u>
Total liabilities	<u>13,044,824</u>	<u>413,075</u>	<u>13,457,899</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,153,960	912,961	4,066,921
Restricted for acquisition of capital assets	603,619	-	603,619
Restricted for debt service	258,756	44,662	303,418
Unrestricted, unallocated	<u>2,122,883</u>	<u>26,642</u>	<u>2,149,525</u>
Total net assets	<u>\$ 6,139,218</u>	<u>\$ 984,265</u>	<u>\$ 7,123,483</u>

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND

NET ASSETS - *proprietary funds*

Year ended June 30, 2005

	<i>Business-type activities - enterprise funds</i>		
	<i>Major</i>	<i>Non-major</i>	
	<i>Water</i>	<i>Sewer</i>	<i>Totals</i>
OPERATING REVENUES			
Charges for services	\$ 112,474	\$ 69,138	\$ 181,612
Hook up fees and other charges	69,150	-	69,150
Total operating revenues	181,624	69,138	250,762
OPERATING EXPENSES			
Contractual services	174,175	21,895	196,070
Utilities	465	2,666	3,131
Depreciation	311,794	48,189	359,983
Repairs and maintenance	9,311	13,432	22,743
Total operating expenses	495,745	86,182	581,927
OPERATING LOSS	(314,121)	(17,044)	(331,165)
NONOPERATING REVENUES (EXPENSES)			
Interest	25,771	50	25,821
Interest expense	(249,470)	(24,215)	(273,685)
Capital contributions	50,000	-	50,000
Property taxes	923,999	-	923,999
Assessments	965,000	-	965,000
Total nonoperating revenues (expenses)	1,715,300	(24,165)	1,691,135
CHANGE IN NET ASSETS	1,401,179	(41,209)	1,359,970
NET ASSETS - BEGINNING	4,738,039	1,025,474	5,763,513
NET ASSETS - ENDING	\$ 6,139,218	\$ 984,265	\$ 7,123,483

See notes to financial statements

Township of Covert
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2005

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Non-major</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 193,708	\$ 67,786	\$ 261,494
Payments to suppliers	<u>(147,045)</u>	<u>(42,889)</u>	<u>(189,934)</u>
Net cash provided by operating activities	<u>46,663</u>	<u>24,897</u>	<u>71,560</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Property taxes collected	923,999	-	923,999
Assessments collected	166,797	-	166,797
Capital grants received	50,000	-	50,000
Principal paid on long-term debt	(368,018)	(7,000)	(375,018)
Interest paid on long-term debt (including \$309,235 of capitalized interest)	<u>(562,767)</u>	<u>(24,390)</u>	<u>(587,157)</u>
Net cash provided by (used in) capital and related financing activities	<u>210,011</u>	<u>(31,390)</u>	<u>178,621</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>25,771</u>	<u>50</u>	<u>25,821</u>
NET INCREASE IN CASH	282,445	(6,443)	276,002
CASH - BEGINNING	<u>1,236,504</u>	<u>60,933</u>	<u>1,297,437</u>
CASH - ENDING	<u>\$ 1,518,949</u>	<u>\$ 54,490</u>	<u>\$ 1,573,439</u>

See notes to financial statements

Township of Covert

STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)

Year ended June 30, 2005

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Non-major</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (314,121)	\$ (17,044)	\$ (331,165)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	316,231	48,189	364,420
(Increase) decrease in accounts receivable	12,084	(1,351)	10,733
Increase (decrease) in accounts payable	<u>32,469</u>	<u>(4,897)</u>	<u>27,572</u>
Net cash provided by operating activities	<u>\$ 46,663</u>	<u>\$ 24,897</u>	<u>\$ 71,560</u>
 SUPPLEMENTARY CASH FLOW INFORMATION:			
Acquisition of capital assets	\$ (1,877,658)	\$ -	\$ (1,877,658)
Decrease in accounts payable	(1,578,061)	-	(1,578,061)
Decrease in due from other governmental units	<u>3,455,719</u>	<u>-</u>	<u>3,455,719</u>
Cash used to acquire capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

Township of Covert
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Covert, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Police Fund and Fire and Ambulance Fund account for public safety activities.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the GASB. The Township also has the option of following subsequent private sector guidance for its business-type activities and enterprise funds, subject to the same limitations. The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

- i) *Bank deposits and investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.
- ii) *Receivables and payables* - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are considered to be fully collectible.

- iii) *Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.
- iv) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and water systems	50 years

- v) *Compensated absences (vacation and sick leave)* - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.
- vi) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits, as presented in the government-wide statement of net assets, are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Cash	\$ 1,338,419	\$ 1,528,777	\$2,867,196
Restricted assets	<u>-</u>	<u>44,662</u>	<u>44,662</u>
Total cash	<u>\$ 1,338,419</u>	<u>\$ 1,573,439</u>	<u>\$2,911,858</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At June 30, 2005, the Township has deposits with a carrying amount of \$2,909,128 and a bank balance of \$3,002,378. Of the bank balance, \$200,000 is covered by federal depository insurance and \$2,802,378 is uninsured. Bond debt reserves in the amount of \$44,662 are held in a separate account, as required by the U.S. Department of Agriculture.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, and business-type funds are as follows:

	<u>General</u>	<u>Fire and Ambulance</u>	<u>Non- major</u>	<u>Total government</u>	<u>Sewer</u>	<u>Water</u>	<u>Total business-type</u>
Accounts	\$ -	\$ 24,784	\$ 13,658	\$ 38,442	\$ 26,888	\$ 828,532	\$ 855,420
Intergovernmental	<u>71,527</u>	<u>-</u>	<u>-</u>	<u>71,527</u>	<u>-</u>	<u>702,722</u>	<u>702,722</u>
Receivables, net	<u>\$ 71,527</u>	<u>\$ 24,784</u>	<u>\$ 13,658</u>	<u>\$ 109,969</u>	<u>\$ 26,888</u>	<u>\$ 1,531,254</u>	<u>\$ 1,558,142</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,658</u>	<u>\$ 13,658</u>	<u>\$ 1,581</u>	<u>\$ 1,354,869</u>	<u>\$ 1,356,450</u>

NOTE 5 - ECONOMIC DEPENDENCY:

The Township received approximately 49 percent of its property tax revenues from one major taxpayer.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated				
Buildings	\$ 1,390,877	\$ 8,553	\$ -	\$ 1,399,430
Furniture, fixtures, and equipment	310,039	80,118	-	390,157
Vehicles	859,446	21,078	(20,209)	860,315
Subtotal	<u>2,560,362</u>	<u>109,749</u>	<u>(20,209)</u>	<u>2,649,902</u>
Less accumulated depreciation for:				
Buildings	(566,097)	(47,646)		(613,743)
Furniture, fixtures, and equipment	(247,707)	(14,075)		(261,782)
Vehicles	<u>(646,469)</u>	<u>(47,650)</u>	<u>20,209</u>	<u>(673,910)</u>
Subtotal	<u>(1,460,273)</u>	<u>(109,371)</u>	<u>20,209</u>	<u>(1,549,435)</u>
Net capital assets being depreciated	1,100,089	378	-	1,100,467
Land	<u>22,214</u>	<u>-</u>	<u>-</u>	<u>22,214</u>
Total capital assets being depreciated, net	<u>\$ 1,122,303</u>	<u>\$ 378</u>	<u>\$ -</u>	<u>\$ 1,122,681</u>
Business-type activities:				
Capital assets being depreciated				
Sewer system	\$ 1,906,269	\$ -	\$ -	\$ 1,906,269
Water system	<u>13,142,504</u>	<u>3,150,510</u>	<u>-</u>	<u>16,293,014</u>
Subtotal	<u>15,048,773</u>	<u>3,150,510</u>	<u>-</u>	<u>18,199,283</u>
Less accumulated depreciation for:				
Sewer system	(636,701)	(48,189)	-	(684,890)
Water system	<u>(707,554)</u>	<u>(311,794)</u>	<u>-</u>	<u>(1,019,348)</u>
Subtotal	<u>(1,344,255)</u>	<u>(359,983)</u>	<u>-</u>	<u>(1,704,238)</u>
Net capital assets being depreciated	13,704,518	2,790,527	-	16,495,045
Land	94,583	-	-	94,583
Construction in progress	<u>1,743,910</u>	<u>780,294</u>	<u>(1,743,910)</u>	<u>780,294</u>
Total capital assets being depreciated, net	<u>\$15,543,011</u>	<u>\$ 3,570,821</u>	<u>\$ (1,743,910)</u>	<u>\$17,369,922</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to programs of the Township as follows:

Governmental activities:	
General government	\$ 12,567
Public safety	81,864
Public works	504
Recreation and culture	<u>14,436</u>
Total governmental activities	<u>\$ 109,371</u>
Business-type activities:	
Sewer	\$ 48,189
Water	<u>311,794</u>
Total business-type activities	<u>\$ 359,983</u>

NOTE 7 - LONG-TERM DEBT:

Long-term debt recorded in the Township's enterprise funds at June 30, 2005, is comprised of the following individual issues:

Sanitary sewer revenue bonds, series 1989A, bearing interest at 6%, maturing each year 1991 through 2029	\$ 277,000
Sanitary sewer revenue bonds, series 1989B, bearing interest at 6%, maturing each year 1991 through 2029	126,000
\$2,500,000 County of Van Buren Water Supply System limited tax general obligation bonds series 1997, bearing interest at 4.0% to 4.4%, maturing each year through 2007, net of unamortized discount of \$9,011	590,989
\$5,000,000 County of Van Buren Water Supply System limited tax general obligation bond series 2002, bearing interest at 3.50 to 4.75%, maturing each year through 2021, net of unamortized discount of \$39,631	4,810,369
\$7,500,000 County of Van Buren Water Supply System limited tax general obligation bond series 2003, bearing interest at 3.000 to 4.375%, maturing each year through 2024	<u>7,450,000</u>
	<u>\$ 13,254,358</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - LONG-TERM DEBT (continued):

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Business-type activities:					
1989A revenue bonds	\$ 280,500	\$ -	\$ (3,500)	\$ 277,000	\$ 3,750
1989B revenue bonds	129,500	-	(3,500)	126,000	3,750
1997 general obligation	875,000	-	(275,000)	600,000	300,000
2002 general obligation	4,900,000	-	(50,000)	4,850,000	75,000
2003 general obligation	<u>7,500,000</u>	<u>-</u>	<u>(50,000)</u>	<u>7,450,000</u>	<u>50,000</u>
Total long-term debt	13,685,000	-	(382,000)	13,303,000	432,500
Less bond discounts	-	-	-	(48,642)	-
Governmental activities:					
Compensated absences	<u>68,000</u>	<u>44,499</u>	<u>(37,499)</u>	<u>75,000</u>	<u>-</u>
Total long-term obligations	<u>\$ 13,753,000</u>	<u>\$ 44,499</u>	<u>\$ (419,499)</u>	<u>\$ 13,329,358</u>	<u>\$ 432,500</u>

Debt service requirements at June 30, 2005, were as follows:

	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
Years ended June 30:		
2006	\$ 432,500	\$ 563,703
2007	483,000	546,049
2008	659,000	526,559
2009	659,500	500,801
2010	660,500	474,983
2011 - 2015	3,388,000	1,969,727
2016 - 2020	3,757,000	1,236,671
2021 - 2025	3,149,500	375,870
2026 - 2030	<u>114,000</u>	<u>13,980</u>
Totals	<u>\$ 13,303,000</u>	<u>\$ 6,208,343</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES:

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
General	\$ 19,662	Current tax collection	\$ 16,956
		Trust and agency	<u>2,706</u>
			<u>19,662</u>
Police	<u>2,720</u>	Trust and agency	<u>2,720</u>
	<u>\$ 22,382</u>		<u>\$ 22,382</u>

The interfund receivable and payable balances resulted from the time lag between the dates that interfund goods and services are provided and payments between funds are made.

NOTE 9 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Township maintains a defined contribution plan. The plan is a non-trustee plan and the Township does not administer the plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. All members of the Township Board and all Township employees employed full-time on a regular basis are eligible to participate. Eligible employees may begin participating after six months of employment. The Township contributes 6 percent of participating employees' annual compensation.

All of the Township's contributions for each participating employee (and interest allocated to the employee's account) are fully vested when the employee participates in the plan.

The Township made required contributions of \$31,616 for the year ended June 30, 2005.

NOTE 10 - CLAIMS ARISING FROM RISK OF LOSS:

The Township is exposed to various risks of losses for claims arising from general liability, wrongful acts, professional liability, property damage and destruction, crime, accidents, and injuries. Risks of losses arising from possible claims are managed through the purchase of commercial insurance.

For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2005, is as follows:

Revenues	\$ 24,426
Expenses	<u>23,001</u>
Excess of revenues over expenses	<u>\$ 1,425</u>

NOTE 12 - COMMITMENTS:

The Township has entered construction contracts for the purpose of constructing water distribution systems. Outstanding contractual and other commitments related to the construction total approximately \$925,000 at June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Covert

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes:				
Current property taxes	\$ 228,000	\$ 228,000	\$ 228,833	\$ 833
Collection fees	<u>120,100</u>	<u>120,100</u>	<u>111,035</u>	<u>(9,065)</u>
Total taxes	<u>348,100</u>	<u>348,100</u>	<u>339,868</u>	<u>(8,232)</u>
Federal grants	<u>-</u>	<u>-</u>	<u>12,485</u>	<u>12,485</u>
State grants	<u>220,000</u>	<u>220,000</u>	<u>217,174</u>	<u>(2,826)</u>
Licenses and permits:				
Business licenses	-	-	200	200
Building and zoning permits	-	-	24,579	24,579
Dog licenses	<u>-</u>	<u>-</u>	<u>36</u>	<u>36</u>
Total licenses and permits	<u>-</u>	<u>-</u>	<u>24,815</u>	<u>24,815</u>
Charges for services:				
Cemetery charges	5,000	5,000	3,941	(1,059)
Park fees	31,000	31,000	30,042	(958)
Transfer station fees	6,000	6,000	5,233	(767)
Land division fees	<u>3,000</u>	<u>3,000</u>	<u>2,365</u>	<u>(635)</u>
Total charges for services	<u>45,000</u>	<u>45,000</u>	<u>41,581</u>	<u>(3,419)</u>
Interest and rentals	<u>29,900</u>	<u>29,900</u>	<u>29,631</u>	<u>(269)</u>
Other:				
Contributions	4,000	4,000	3,244	(756)
Miscellaneous	<u>26,000</u>	<u>26,000</u>	<u>27,362</u>	<u>1,362</u>
Total other	<u>30,000</u>	<u>30,000</u>	<u>30,606</u>	<u>606</u>
Total revenues	<u>673,000</u>	<u>673,000</u>	<u>696,160</u>	<u>23,160</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)
Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES				
Legislative - Township Board	\$ 3,250	\$ 3,250	\$ 4,133	\$ (883)
General government:				
Board of review	5,000	5,000	2,457	2,543
Supervisor	25,000	25,000	21,528	3,472
Clerk	30,000	30,000	27,026	2,974
Treasurer	44,000	44,000	40,236	3,764
Elections	15,000	10,500	10,037	463
Assessing	55,000	55,000	50,426	4,574
Cemetery	10,000	10,000	6,989	3,011
Insurance and bonds	140,000	139,500	123,713	15,787
Pension	5,000	5,500	6,176	(676)
Buildings and grounds	30,000	22,300	17,603	4,697
Professional services	23,500	26,500	17,331	9,169
Other	23,250	25,250	17,058	8,192
Total general government	<u>405,750</u>	<u>398,550</u>	<u>340,580</u>	<u>57,970</u>
Public safety:				
Electrical inspector	10,000	10,000	-	10,000
Building inspection	15,000	15,000	23,001	(8,001)
Mechanical inspection	7,000	7,000	-	7,000
Ordinance enforcement	35,000	35,000	14,196	20,804
Total public safety	<u>67,000</u>	<u>67,000</u>	<u>37,197</u>	<u>29,803</u>
Public works:				
Transfer station	35,000	34,000	34,948	(948)
Streets and sidewalks	50,000	48,150	52,518	(4,368)
Drains	10,000	10,000	7,895	2,105
Housing Commission	2,000	2,000	1,510	490
Airport Authority	35,000	35,000	30,452	4,548
Total public works	<u>132,000</u>	<u>129,150</u>	<u>127,323</u>	<u>1,827</u>
Community and economic development - planning commission	<u>40,000</u>	<u>40,000</u>	<u>33,794</u>	<u>6,206</u>

Township of Covert

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Recreation and culture:				
Library	\$ 6,000	\$ 2,875	\$ 3,076	\$ (201)
Parks	10,000	75,000	73,744	1,256
Total recreation and culture	16,000	77,875	76,820	1,055
Capital outlay	-	53,175	32,176	20,999
Contingency	-	-	-	-
Total expenditures	664,000	769,000	652,023	116,977
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,000	(96,000)	44,137	140,137
OTHER FINANCING USES				
Transfer to Police Fund	(100,000)	(100,000)	(100,000)	-
Transfer to Fire and Ambulance Fund	(100,000)	(100,000)	(100,000)	-
Transfer to Wastewater Fund	-	-	-	-
Total other financing uses	(200,000)	(200,000)	(200,000)	-
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER USES	(191,000)	(296,000)	(155,863)	140,137
FUND BALANCES - BEGINNING	642,332	642,332	642,332	-
FUND BALANCES - ENDING	<u>\$ 451,332</u>	<u>\$ 346,332</u>	<u>\$ 486,469</u>	<u>\$ 140,137</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Police Fund
Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes - property taxes	\$ 350,000	\$ 350,000	\$ 351,629	\$ 1,629
State grants:				
Training grant	-	-	1,335	1,335
Liquor license fees	-	-	495	495
Total state grants	-	-	1,830	1,830
Fines and forfeitures - ordinance fines	-	-	2,174	2,174
Interest	800	800	1,054	254
Other	4,000	4,000	13,681	9,681
Total revenues	354,800	354,800	370,368	15,568
EXPENDITURES				
Public safety - police operations	454,800	454,800	421,853	32,947
Capital outlay	30,000	30,000	-	30,000
Total expenditures	484,800	484,800	421,853	62,947
DEFICIENCY OF REVENUES OVER EXPENDITURES	(130,000)	(130,000)	(51,485)	78,515
OTHER FINANCING SOURCES				
Transfer from General Fund	100,000	100,000	100,000	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(30,000)	(30,000)	48,515	78,515
FUND BALANCES - BEGINNING	125,994	125,994	125,994	-
FUND BALANCES - ENDING	\$ 95,994	\$ 95,994	\$ 174,509	\$ 78,515

Township of Covert

BUDGETARY COMPARISON SCHEDULE - Fire and Ambulance Fund

Year ended June 30, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes - property taxes	\$ 396,958	\$ 396,958	\$ 398,463	\$ 1,505
Federal grant	6,000	6,000	75,987	69,987
Intergovernmental	95,000	95,000	99,689	4,689
Charges for services	29,000	29,000	76,891	47,891
Interest	500	500	1,322	822
Other	<u>5,000</u>	<u>5,000</u>	<u>22,688</u>	<u>17,688</u>
Total revenues	<u>532,458</u>	<u>532,458</u>	<u>675,040</u>	<u>142,582</u>
EXPENDITURES:				
Public safety	622,458	622,458	601,191	21,267
Capital outlay	<u>20,000</u>	<u>20,000</u>	<u>74,062</u>	<u>(54,062)</u>
Total expenditures	<u>642,458</u>	<u>642,458</u>	<u>675,253</u>	<u>(32,795)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(110,000)	(110,000)	(213)	109,787
OTHER FINANCING SOURCES				
Transfer from General Fund	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(10,000)	(10,000)	99,787	109,787
FUND BALANCES - BEGINNING	<u>141,605</u>	<u>141,605</u>	<u>141,605</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 131,605</u>	<u>\$ 131,605</u>	<u>\$ 241,392</u>	<u>\$ 109,787</u>

SUPPLEMENTARY INFORMATION

Township of Covert
COMBINING BALANCE SHEET - nonmajor governmental funds
June 30, 2005

	<u>Roads</u>	<u>Loan</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
Cash	\$ 2,869	\$ 82,843	\$ 85,712
Investments	341,199	-	341,199
Loans receivable	<u>-</u>	<u>13,658</u>	<u>13,658</u>
Total assets	<u>\$ 344,068</u>	<u>\$ 96,501</u>	<u>\$ 440,569</u>
FUND BALANCES			
Reserved - long-term receivables	\$ -	\$ 13,658	\$ 13,658
Unreserved, undesignated	<u>344,068</u>	<u>82,843</u>	<u>426,911</u>
Total fund balances	<u>\$ 344,068</u>	<u>\$ 96,501</u>	<u>\$ 440,569</u>

Township of Covert**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended June 30, 2005

	<u>Roads</u>	<u>Loan</u>	<u>Total nonmajor governmental funds</u>
REVENUES			
Property taxes	\$ 117,214	\$ -	\$ 117,214
Grants	25,000	-	25,000
Interest	4,915	-	4,915
Other	<u>-</u>	<u>2,172</u>	<u>2,172</u>
Total revenues	147,129	2,172	149,301
EXPENDITURES			
Public works	<u>155,494</u>	<u>-</u>	<u>155,494</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,365)	2,172	(6,193)
FUND BALANCES - BEGINNING	<u>352,433</u>	<u>94,329</u>	<u>446,762</u>
FUND BALANCES - ENDING	<u>\$ 344,068</u>	<u>\$ 96,501</u>	<u>\$ 440,569</u>

SUPPLEMENTARY DATA

Township of Covert
SCHEDULE OF INDEBTEDNESS
June 30, 2005

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Contract payable - County of Van Buren, Michigan - Water Supply System Series 1997 - 4.0 to 4.4%	2006	\$ 26,250	\$ 300,000	\$ 326,250
	2007	13,200	300,000	313,200
		<u>\$ 39,450</u>	<u>\$ 600,000</u>	<u>\$ 639,450</u>

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - County of Van Buren, Michigan - Water Supply System Series 2002 - 3.50 to 4.75%	2006	\$ 205,862	\$ 75,000	\$ 280,862
	2007	203,238	100,000	303,238
	2008	199,738	325,000	524,738
	2009	187,550	325,000	512,550
	2010	175,362	325,000	500,362
	2011	162,362	325,000	487,362
	2012	149,362	325,000	474,362
	2013	136,362	325,000	461,362
	2014	123,038	325,000	448,038
	2015	109,388	325,000	434,388
	2016	95,412	325,000	420,412
	2017	81,113	350,000	431,113
	2018	65,363	350,000	415,363
	2019	49,438	350,000	399,438
	2020	33,250	350,000	383,250
	2021	16,626	350,000	366,626
		<u>\$ 1,993,464</u>	<u>\$ 4,850,000</u>	<u>\$ 6,843,464</u>

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - County of Van Buren, Michigan - Water Supply System Series 2003 - 3.000 to 4.375%	2006	\$ 307,861	\$ 50,000	\$ 357,861
	2007	306,361	75,000	381,361
	2008	304,111	325,000	629,111
	2009	291,111	325,000	616,111
	2010	278,111	325,000	603,111
	2011	265,111	325,000	590,111
	2012	252,111	325,000	577,111
	2013	239,111	350,000	589,111
	2014	225,111	350,000	575,111
	2015	211,111	350,000	561,111
	2016	197,111	350,000	547,111
	2017	183,111	350,000	533,111
	2018	169,111	400,000	569,111

Township of Covert
SCHEDULE OF INDEBTEDNESS (Continued)
June 30, 2005

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - County of Van Buren,	2019	\$ 152,711	\$ 400,000	\$ 552,711
Michigan - Water Supply System	2020	135,711	450,000	585,711
Series 2003 - 3.000 to 4.375% (Continued)	2021	116,811	450,000	566,811
	2022	97,686	750,000	847,686
	2023	65,436	750,000	815,436
	2024	32,811	750,000	782,811
		<u>\$ 3,830,609</u>	<u>\$ 7,450,000</u>	<u>\$ 11,280,609</u>

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - U.S. Department of	2006	\$ 23,730	\$ 7,500	\$ 31,230
Agriculture - Sanitary Sewer System	2007	23,250	8,000	31,250
Series 1989A and 1989B - 6.00%	2008	22,710	9,000	31,710
	2009	22,140	9,500	31,640
	2010	21,510	10,500	32,010
	2011	20,850	11,000	31,850
	2012	20,130	12,000	32,130
	2013	19,380	12,500	31,880
	2014	18,570	13,500	32,070
	2015	17,730	14,000	31,730
	2016	16,830	15,000	31,830
	2017	15,900	15,500	31,400
	2018	14,910	16,500	31,410
	2019	13,890	17,000	30,890
	2020	12,810	18,000	30,810
	2021	11,700	18,500	30,200
	2022	10,530	19,500	30,030
	2023	9,330	20,000	29,330
	2024	8,100	20,500	28,600
	2025	6,840	21,000	27,840
	2026	5,520	22,000	27,520
	2027	4,200	22,000	26,200
	2028	2,820	23,000	25,820
	2029	1,440	23,000	24,440
	2030	-	24,000	24,000
		<u>\$ 344,820</u>	<u>\$ 403,000</u>	<u>\$ 747,820</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Board of Trustees
Township of Covert, Michigan**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan (the Township), as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements, and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the Township Board, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

November 10, 2005